After decades of struggling with high rates of inflation, in 2001 the nation of El Salvador abandoned the use of its local currency, the Salvadoran colón, and made the US dollar its official legal tender. Twenty years later, El Salvador has announced that it will be adding a new currency to be accepted as legal tender in the country: Bitcoin. Beginning September 7, 2021, residents will be able to conduct their transactions in either US Dollars or Bitcoin. As part of the initiative to encourage use of Bitcoin for transactions, President Nayib Bukele announced that everyone who downloads the government BTC wallet will receive $30 worth of Bitcoin (at a potential cost of $117 million) and the country would install 1500 Bitcoin ATMs throughout the country. This move by El Salvador has also led other countries to consider adopting cryptocurrencies as legal tender as well.

The recent growth of digital currencies around the world has also caught the attention of central bankers in large wealthy economies. Most recently, Chairman Jerome Powell announced that the US Federal Reserve was exploring the possibility of creating its own digital currency. The move is aimed at improving efficiency and security of payment systems, while maintaining the stability of the US dollar. As such, rather than develop a cryptocurrency like Bitcoin or Dogecoin, whose value can be quite volatile, the Federal Reserve is looking to create a digital coin that would be used alongside paper currency. Proponents of the plan argue that this will reduce transactions costs, create more market access for unbanked Americans, and allow the US Dollar to maintain its status as a reserve currency. Those opposed to the plan (mostly banks) argue that it will allow depositers to remove large sums of money quickly from banks

in times of crisis and lead to virtual bank runs, and deprive banks of customers, which could limit their ability to lend. Some lawmakers are also concerned for the potential to make illicit transactions easier and increase crime.

Discussion Questions

1. What are the necessary conditions for something to be considered money? Does Bitcoin satisfy these conditions?
2. What are the advantages and disadvantages of El Salvador adopting Bitcoin as legal tender?
3. What share of Salvadorans have access to the internet? How might that affect the use of Bitcoin as a currency?
4. The US already has several ways to make digital transactions, e.g. credit/debit cards, Venmo, Zelle, PayPal, etc. How would a digital currency increase efficiency?
5. Many early cryptocurrency investors have adopted a strategy known as HODL—Hold On for Dear Life. They believe that over time the value of cryptocurrencies, such as Bitcoin, will only continue to rise. If this is a dominant strategy among most investors, how does this affect cryptocurrencies' ability to function as a currency?

Requirements

Prepare at least a one page essay, double-spaced with proper citations; and, include answers to the questions above in paragraph form. Every informational essay should include an introduction, middle (1 - 3 solid, complete, and in your own words), and conclusion. You may start your thread and add an attachment.